

## Internal Revenue Service

## Department of the Treasury

Washington, DC 20224

Person to Contact: [REDACTED]

Telephone Number: [REDACTED]

Refer Reply to: [REDACTED]

Date: JAN 15 1997

Employer Identification Number: [REDACTED]  
Key District: [REDACTED]

Dear Applicant:

We have considered your application for recognition of exemption as an organization described in section 501(c)(4) of the Internal Revenue Code. Based on the information submitted, we have concluded that you do not qualify for exemption under that section.

## FACTS

You were formed on [REDACTED], under [REDACTED]. On [REDACTED], you submitted your application for recognition of exemption under section 501(c)(4) of the Code.

Paragraph 11 of your Articles of Incorporation provides that "the purpose of [REDACTED] is to provide cost effective, quality treatment, and prevention services to ameliorate the effects of alcohol and other drugs of abuse and other mental problems through a consortium of alcohol and other drug treatment and other mental health providers." [REDACTED] limits your members to organizations exempt from federal income tax under section 501(c)(3) of the Code and that are alcohol and drug treatment and/or prevention organizations. Your members can also be other mental health treatment organizations.

On behalf of your members, you pursue capitated contracts from government payors and other payors in order to improve the performance of your member providers in managing costs of care, and to improve the delivery of cost efficient alcohol and drug treatment services.

You educate your members about capitation and assist them in managing care delivery, improving quality, expanding services, and improving the overall health of their communities. You also may operate a treatment utilization review function, conduct quality care and outcome studies among your providers, establish and monitor provider eligibility criteria and professional standards, and operate a management information system to support the above activities.

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## ANALYSIS

Section 501(c)(4) of the Internal Revenue Code provides for the exemption from federal income tax of civic leagues or organizations not organized for profit but operated exclusively for the promotion of social welfare, or local associations of employees, the membership of which is limited to the employees of a designated person or persons in a particular municipality, and the net earnings of which are devoted exclusively to charitable, educational, or recreational purposes.

Section 1.501(c)(4)-1(a)(1) of the Income Tax Regulations provides that a civic league or organization may be exempt as an organization described in section 501(c)(4) if:

- (i) It is not organized or operated for profit; and
- (ii) It is operated exclusively for the promotion of social welfare.

Section 1.501(c)(4)-1(a)(2)(i) of the regulations provides that an organization is operated exclusively for the promotion of social welfare if it is primarily engaged in promoting in some way the common good and general welfare of the people of the community. An organization embraced within this section is one which is operated primarily for the purpose of bringing about civic betterments and social improvements.

Section 1.501(c)(4)-1(a)(2)(ii) of the regulations provides that an organization is not operated primarily for the promotion of social welfare if it is carrying on a business with the general public in a manner similar to organizations which are operated for profit.

You pursue capitulated contracts for your members. This activity is indistinguishable from similar activities carried on by commercial entities operated for profit.

Accordingly, you do not qualify for exemption from federal income tax under 501(c)(4) of the Code.

You have the right to protest this ruling if you believe that it is incorrect. To protest, you should submit a statement of your views, with a full explanation of your reasoning. This statement, signed by one of your principal officers, must be submitted in duplicate within 30 days from the date of this letter. You also have a right to a conference in this office after your statement is submitted. You must request the conference, if you want one, when you file your protest statement. If you are to be represented by

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someone who is not one of your principal officers, he or she must file a proper power of attorney and otherwise qualify under the Conference and Practice Requirements.

If you do not protest this ruling in a timely manner, it will be considered by the Internal Revenue Service as a failure to exhaust available administrative remedies.

If we do not hear from you within 30 days, this ruling will become final and copies will be forwarded to the District Director, Baltimore, Maryland, which is your key district for exempt organization matters. Thereafter, any questions about your federal tax status or the filing of returns should be addressed to that office. If you want the matter reopened at a later time, you must pay a new user fee as provided in Rev. Proc. 96-8, 1996-1 I.R.B. 187.

Sincerely yours,

*Marvin Friedlander*  
Marvin Friedlander  
Chief, Exempt Organizations  
Technical Branch 1